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Christian Workers – Finance for Living Series

guide to student loan repayment

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introduction

For the next generation of Christian workers, those leaving university now and for the foreseeable future, the repayment of student debt will be a significant and growing issue. According to the Student Loan Company (SLC), the outstanding balance of student loans has doubled over the 5 years to April 2012 to £47 billion and Government projections estimate it will be more than £80 billion by 2017/18.

Although individual debt levels will vary, and the requirement to repay student debt is income dependent, the very fact that a liability lurks in the background will for some be concerning. This paper outlines the repayment rules of the different loan schemes that are in place but at the outset we want to highlight two key issues which are particular concerns for Christian workers:

Working overseas

Working overseas may have a significant impact on when and how much of the loan requires repayment. In essence, the rules are the same as for people in the UK, **however**, the income threshold (the amount that you can earn before repaying the loan) will not be the same as in the UK. In fact, in many overseas countries this threshold is considerably lower and this will need to be taken into account if you are seeking to work overseas. We believe that a calling overseas should not be primarily about financial issues, but failing to plan for loan repayments when they are required may cause significant problems, even tipping the balance on whether workers are able to cope financially. Further information about working overseas is provided towards the end of this paper including the necessity to inform the SLC if you are planning to live abroad for a period of more than 3 months.

The moral dilemma

For the more recent loan schemes (for courses starting on or after September 1998) the repayment of the loans are 'income contingent': the repayment is based on an assessment of income, rather than the size of the loan. This means that for some, who will never have earnings above the repayment threshold, none of the loan may ever require repayment and will eventually be 'written off'.

While some see this loan system as part of the broader social benefit network in the UK, in effect through a 'graduate tax' it provides subsidised education for those expected to be on lower incomes. Others will regard these loans as a liability and seek to repay them regardless even though there is no legal requirement to do so. Our opinion is that Christians should comply with the repayment rules, but should not feel compelled to make voluntary repayments that extend beyond these rules.

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overview

The Government sponsored student provided loans fall broadly into two groups:

- ‘Mortgage style loans’ (Also known as ‘fixed term loans’) are loans taken out on a course that started before September 1998;
- ‘Income contingent repayment loans’ apply to courses that started on or after September 1998. Within this group, there are two types of loan: ‘Plan 1’ for courses starting before September 2012; ‘Plan 2’ is for courses starting after 1 September 2012.

The Student Loan Company (SLC) is responsible for administering the loan records of its customers (ex-students) for both types of loans and by working in conjunction with HMRC ensuring that, subject primarily to earnings criteria, the loans are repaid in full or in certain instances written off.

Although the SLC administers both schemes, there are different rules regarding repayment, deferment, and write off, depending upon the type of loan. This is particularly true for those customers who are based overseas, where repayment of income contingent repayment loans often ‘kicks in’ at far lower income levels than for the mortgage style loans. If you are considering working overseas then understanding the earnings threshold and its impact upon any repayments should form an essential element of your financial planning.

Summary of key differences between mortgage style loans and income contingent style loans

Issue	Mortgage type loan	Income contingent style loan
Date taken out	Course commences pre Sept. 98	Course commences post Sept. 98
Repayment	Fixed term repayments (5 or 7 years), subject to deferment	9% of income above an earnings threshold
Earnings required for repayment if working in the UK	Earning less than £27,813 per annum can apply for deferral	Earning less than £1,363 per month no repayment required
Earnings required for repayment if working overseas	Earning less than £27,813 per annum can apply for deferral	Dependent upon perceived living costs on a country by country basis
Loan write off	Age dependent, or if loan outstanding for 25 years	England and Wales 25 years (plan 1) England and Wales 30 years (plan 2) Northern Ireland 25 years Scotland 35 years

Most of the correspondence that customers receive comes directly from the SLC but much of this is dependent upon information provided to them from HMRC. For example HMRC will inform the SLC of the customers’ employment status, whether they are on benefits, or whether they have returned from a period overseas. In some cases this information may be out of date therefore leading to incorrect correspondence.

In the event that information contained in correspondence received from the SLC is incorrect the customer should contact the SLC directly.

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health warning

This paper was written in June 2013 during the 2013/14 tax year. The rules described and the monetary values all relate to that period. Should significant time have elapsed between then and now, we would strongly advise you to visit www.studentloanrepayment.co.uk to ensure that there have been no changes to the rules that would impact onto your situation and to confirm the up-to-date interest rates and applicable thresholds.

Also, because there are certain anomalies concerning the way that a Christian worker's income can be calculated we would recommend that you read our guide to the UK benefits system, a briefing paper for Christian Workers, as a general introduction before getting too deeply into this paper.

what constitutes earnings?

Regardless of the type of loan that you have (mortgage style or income contingent repayment loans) there are provisions in place which will not require you to make repayment unless your earnings exceed a certain amount (the income threshold). It is therefore important to understand what constitutes earnings for the purposes of calculating student loan deductions.

Generally speaking, earnings are made up of income earned from employment or self-employment. For Christian workers partially or wholly supported by gift income, this can be a tricky and often misunderstood area. Many Christian workers do not realise that gift income is taxable if it is received because of the exercise of their vocation or because it will enable them to continue in that vocation. This includes grants and gifts (whether asked for or not) from religious bodies, charitable trusts, or individuals that are for the benefit of the Christian worker, or their family. Payments from Stewardship would fall into this category.

Gifts and support received directly from close relatives (including parents, spouses and siblings) and immediate friends (an undefined term) are excluded, as are gifts for certain specific events e.g. on marriage or for medical treatment. For more information please refer to our guide to the UK benefits system.

With few exceptions, earnings is the relevant starting point when considering loan repayment and therefore gaining a clear understanding of your income is essential.

mortgage style (pre 1998) loans

If the only loans that you have taken out are for courses that commenced after 1 September 1998, please ignore this section and move on to the section headed income contingent repayment loans (Plan 1) on page 8.

Mortgage style loans apply to courses that commenced before September 1998, and as such all recipients will have long since completed their courses and have embarked on the next phase of their lives.

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Basic repayment

For many, mortgage style loans are repaid on a monthly basis by Direct Debit. For those with four or fewer loans the repayment period is 5 years or 60 months, and for those with 5 or more loans the repayment period is extended to 7 years or 84 months.

The repayment calculation methodology is very simple: the amount borrowed, plus interest based on the rate of inflation, is divided by the number of repayment months. There are certain circumstances which may result in you being able to defer repayments, particularly in cases where you earn below a stipulated amount (see below).

Deferring repayment

Deferment is the process of postponing your student loan repayments for a period of 12 months. If you have gross annual income of £27,813 (2013/14 tax year) or less you may be eligible to apply for deferment. To defer repayments, you will need to complete and return an application form (available from the SLC), and provide proof of your gross income or means of financial support. The income figure which determines deferment is based solely on your income alone. It is not a household income and therefore income from spouses, partners, or other relatives is not relevant.

For the type of evidence that you will be required to provide to support your claim refer to the SLC website.

If successful, your repayments will be **deferred** for 12 months, during which time you will continue to be charged interest on your outstanding balance. Towards the end of the 12 month period the SLC will write to you setting out what the new repayments will be, at which time you will be given the opportunity to apply for a further period of deferment.

Living overseas

If you are living overseas and earning the equivalent of at least £27,813 p.a. (2013/14 tax year) then repayments are still required to be made by Direct Debit. Once again applying to have repayments deferred is an option if your income does not meet the threshold level.

Loan cancellation

Under certain circumstances, the SLC may cancel your liability to repay the loan. However in order for this to happen, you must be up-to-date with your current schedule of loan repayments. Some circumstances where a loan may be cancelled include:

- You were under the age of 40 when your last agreement for a student loan was made and you reach the age of 50.
- You were aged 40 or over when your last agreement for a student loan was made and you reach the age of 60.
- Your last agreement for a student loan has been outstanding for at least 25 years.

For further information please visit www.studentloanrepayment.co.uk.

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income contingent repayment loans (Plan 1)

Since 1998 all loans, whether a maintenance loan (paid to the student) or a tuition fee loan (paid to the university direct), are termed 'income based' loans also known as 'income contingent repayment' (ICR) loans because the repayment is based on an assessment of income, rather than the size of the loan.

These loans are also interest bearing currently capped at the lower of 1% above the Bank of England base rate or RPI (see the student loan company website for current interest rates), subject to certain 'write off' criteria (see later) and must be repaid in full during the working lifetime of the student. Any additional grants or bursaries received by the student do not have to be repaid.

Loan repayment - general

Loans become eligible for repayments to start from the April (next tax year) either following graduation or the date that the customer left the course if not completing it in full. There is an obligation, subject to earnings criteria, to repay a calculated amount of the loan each week, month or year.

Different repayment rules apply dependent upon the employment status of the customer and the geographical location in which the customer resides or is employed. For those residing or working in the UK, payments are made to HMRC either by way of a PAYE deduction (the employer makes the deduction from your salary) or via the completion of a self-assessment tax return (you make the payment direct to HMRC). Customers residing or working overseas will make repayments directly to the SLC.

HMRC will inform the SLC of payments which will reassess the loan and send out a balance statement. Any customer, regardless of income or location, can make additional voluntary repayments in order to repay the loan early. In all cases these must be made directly from the customer to the SLC.

Administration

A customer confirmation pack will be sent out by the SLC in cases where they are informed by HMRC that a customer is neither working nor receiving benefits. The pack contains two forms, a UK form and an overseas form. The customer must complete the UK form if they are resident in the UK regardless of whether they are working or not, and complete the overseas form if they are resident overseas for a period of more than 3 months, again regardless of whether or not they are working.

The responses on the form will indicate both the customer's residential and employment status to the SLC and must be supported by evidence. The SLC website sets out what is acceptable evidence in each different circumstance.

Planning to reside or work overseas

If you are planning to live abroad for a period of more than 3 months (a situation which may be the case for Christian workers), then you **must** inform the SLC. Failure to do so may result in fines being imposed. No notification is required if you plan to live abroad for less than 3 months.

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Preferably notification is to be made by the 'overseas form' in the customer information pack. If one has not been sent by the SLC, it can be downloaded from the SLC website. On this form you (the customer) will need to enter your overseas earnings, state whether you will be self-employed or state how you will be supported whilst overseas if you are not working (e.g. living off savings or being supported by a third party(s)). In all cases evidence will be required.

It is important to understand what your status is in this regard. Many Christian workers who may consider themselves to be supported by third party(s) will in fact be self-employed. Please read our guide to the UK benefits system for a more detailed understanding of this area.

Completing this form is very important, as is the evidencing of the way that you will be supported whilst abroad if you are not earning any income. The starting assumption from the SLC is that you will be employed and therefore earning and therefore responsible for repaying any loans subject to exceeding the earnings threshold. **The onus rests with you to inform the SLC otherwise**.

The completed form and the supporting evidence must be posted to the SLC. Neither faxed nor e-mail copies are accepted. On your return to the UK, it is again **your** responsibility to inform the SLC of your changed status.

Particularly if you will be in a 'hard-to-reach' part of the world, you may want to consider granting a power of attorney to someone you trust. This is an authority that allows another person to act on your behalf in legal and financial matters for a specified period of time. This power should be included with the paper work that you send to the SLC and will allow them to correspond directly with the person given the power thereby allowing them to discuss your situation whilst you are away.

Repayment

UK based customers in employment – i.e. not required to complete a self-assessment tax return

If you (the customer) are employed, then repayments are collected by HMRC by way of a deduction from salary. It is primarily the responsibility of the employer to calculate the necessary deductions on advice from HMRC. However, if you believe that deductions should be occurring, then you should contact the personnel/HR department of your employer and pursue this further.

Repayments are calculated by deducting 9% of earnings above a threshold. For UK residents that threshold is £16,365 (2013/14 tax year) per annum, £1,363 per month, or £314 per week. So if a customer earns £1,750 per month, the monthly repayment would be 9% of (£1,750 - £1,363) = 9% of £387 = £34.

Each pay period (e.g. week or month) is a discrete period in its own right. If the customer is paid monthly and exceeds the monthly threshold in any single month then a deduction will be made. If in subsequent months the earnings level falls back below the threshold, no further deductions will be made. If over the course of the whole tax year less than £16,365 (2013/14 tax year) is earned and deductions have been made during the year, these can be claimed back.

UK based customers – required to complete a self-assessment tax return

If you are required to complete a self-assessment tax return (i.e. the customer is not exclusively employed by a third party), then the loan repayment amount is calculated based on that assessment. The tax return should be completed as normal entering figures for earned income, the profits from self-employment and any unearned income. The repayment due is 9% of the relevant income less the threshold. Unearned income (interest, dividends etc.) will only form a part of relevant income where it exceeds £2,000 in any one year.

So if profits from self-employment were £17,500, income from employment, £3,000 (no PAYE deductions having taken place) and unearned income, £1,750, the repayment would be calculated as:
£17,500 + £3,000 – threshold x 9% = (£20,500 - £16,365) x 9% = £372 for the year.

However, if the unearned income was £2,500 (exceeding the £2,000 limit) the calculation would be:
£17,500 + £3,000 + £2,500 – threshold x 9% = (£23,000 - £16,365) X 9% = £597 for the year.

Where repayments have already been collected through the PAYE system, these should be deducted from the figures calculated above with only the net balance being paid.

Customers residing or working overseas

The repayment calculation is in essence the same as that applied for the UK. 9% of gross income above a threshold is to be repaid to the SLC. There are, however, some differences from the UK situation.

- The threshold varies from country to country, depending upon the **perceived cost of living**
- Repayments have to be made by the customer directly to the SLC

If you are earning money whilst abroad, but do not disclose the amount, then a default deduction will be applied. This default deduction varies from country to country.

The only exception to this is if a customer is working overseas but continues to be paid by an organisation residing in the UK and continuing to pay its staff through the UK tax system. In such cases, any deductions will continue to be via the UK tax system.

To find a list of countries and their relevant thresholds go to: www.studentloanrepayment.co.uk and type "overseas thresholds" into the 'site search' area on the displayed page.

Cancellation or write off

As with mortgage style loans, there are certain circumstances in which outstanding loan balances can be written off. For loans taken out in or before the 2005/6 academic year then loans are written off when you reach the age of 65.

For loans taken out in or after the 2006/7 academic year the rules regarding write off vary depending upon the where you normally lived when you first entered university and took out your first loan. If you lived in England, Wales or Northern Ireland loans are written off 25 years after they became eligible to be repaid. If you lived in Scotland, loans are written off 35 years after they became eligible to be repaid.

Receiving a disability-related benefit may also provide a reason for writing the debt off. If you are uncertain, please contact the student loan company direct.

income contingent repayment loans (Plan 2)

Where the first year of your course starts after 1 September 2012, repayment Plan 2 will apply. In essence, the repayment calculation is no different in principle to Plan 1, although the income threshold (the amount that you must earn before being required to repay any of the loan) has been increased to £21,000 per annum and the interest rates are calculated differently. The mechanics and method of payment remain the same. Appendix 1 expands on this and provides some additional information for those with both Plan 1 and Plan 2 loans.

legal obligation

In the event that the repayment criteria are not met (not earning above the threshold) there is no legal obligation to repay the loan.

useful contacts

www.SLC.co.uk

www.studentrepayment.co.uk

www.studentloans.co.uk

www.direct.gov.uk/en/Parents/index.htm

The Finance for Living series of papers forms part of Stewardship's resources for Christian Workers. With contributions from a panel of advisors each of whom has significant experience within the area of mission, the series draws on their expertise to offer biblical teaching and practical guidance on issues affecting those living on personal financial support. The papers are available to download from the Stewardship website see http://www.stewardship.org.uk/christian-workers

This paper has been written by Alan Hough and edited by Stewardship. Alan has a background in corporate finance, compliance and risk alongside that of church leadership and trusteeship.

If you have any questions or comments arising from the material presented here, you can contact us at education@stewardship.org.uk or by telephone on 0208 502 8585.

Appendix: Income contingent repayment loans (Plan 2)

Plan 2 loans only

Where the first year of your course starts after 1 September 2012, the repayment Plan 2 will apply. In essence, the repayment calculation is no different in principle to plan 1, although the income threshold (the amount that you must earn before being required to repay any of the loan) has been increased to £21,000 per annum and the interest rates applied are calculated differently (see below). The mechanics and method of payment remain the same as those for plan 1 loans, and as with plan 1 loans earnings thresholds when working overseas must be checked on the student loan company website.

Interest rates during the period of study are based on RPI (the March valus is used) plus 3%. After graduation interest is calculated dependent upon earnings and currently ranges from RPI (again the March rate is used) for those earning less than £21,000 per annum to RPI plus 3% for those earning more than £41,000 per annum. Then student loan company website contains all the up-to-date interest rates.

Plan 1 and Plan 2 loans

In situations where you have both a Plan 1 and a Plan 2 loan in existence the repayments will be calculated as follows:

- For annual income above £16,365 (2013/14 tax year) and up to £21,000, 9% of income above the lower threshold will be repayable to the Plan 1 loan, e.g. annual earnings of £19,500 would result in an annual repayment of (£19,500 - £16,365) x 9% = £282 or £23 per month.
- Once annual earnings exceed £21,000 any repayments are calculated and allocated as follows:
    - The first £21,000 of earnings is allocated to the Plan 1 loan resulting in a maximum repayment of £34 per month.
    - Any earnings in excess of £21,000 are used to calculate repayments to a plan 2 loan.
- So if annual earnings are £27,500 the repayments would be calculated as follows:
    - Plan 1 loan - £21,000 - £16,365 x 9% = £34 per month
    - Plan 2 loan - £27,500 - £21,000 x 9% = £49 per month
    - Total monthly repayment £34 + £49 = £83

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