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Higher Fees, Higher Expectations?

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Summary

Individual economic gains are regarded as a major rationale for higher private contributions to the costs of higher education (HE). The perceptions potential applicants have about expected outcomes can be assumed to play a significant role in their decision-making. This Issues Paper explores these perceptions by outlining some of the findings of research conducted in six secondary schools/ colleges (five in Oxfordshire, one in Buckinghamshire) among Year 13 pupils taking courses that would make them eligible to apply for HE. A questionnaire (completed by 723 respondents) was followed by focus groups with applicants in five of the participating institutions. The findings indicate that there are high levels of uncertainty amongst potential applicants to HE regarding expected earnings after graduation and the amount of debt studying for a degree would generate. However, attitudes towards the notion of a graduate premium have a strong influence on the propensity to apply to HE. The differences in the expected cost of studying at different institutions was not a predominant factor in participants' choices about where to apply.

Background

In the context of rising fees for full-time Home/ EU undergraduates at English universities, the research was designed to explore the reasoning of university applicants and in particular the differential effects of financial factors on HE application decisions in different parts of the population. While there is, at present, no clear pattern across research studies of the impact of the changes being introduced in 2012, for young applicants from England, there is no significant shift in choice of course or institution either to, or away from, those charging the maximum £9000 (UCAS 2012: 10).

It is important to be aware that those starting their degrees in 2012 have been making decisions about complex educational and financial matters in a quasi-market that has been evolving around them. The Parliamentary vote to increase the cap on Home/ EU undergraduate fees at English universities to £9000 was held on 9 December 2010, by which point they were already in Year 12 studying for qualifications which they selected at least partly with plans for subsequent study or employment in mind.

One focus of the study is the notion of private individual economic gain, since it is frequently cited by politicians as a justification for higher private contributions to the cost of HE (e.g. Willetts 2011). Linked to this is the study's interest in participants' expectations of debt and future financial benefits of studying. A second focus is on the factors that influence the choice of particular institutions and subjects and a third on sources of information and guidance.

Financial Considerations Regarding HE

Expected earnings

Participants who applied to HE were asked about their expectations regarding their earnings in their first job after graduation. This was done using a series of income brackets (0-£15,000, £15-21,000, etc.) and an option 'don't know/ have not thought about this'. This latter option was selected by 28.6% of respondents, indicating a high degree of uncertainty about or little engagement with questions concerning future earnings. A further 28.4% of respondents indicated that they expect annual earnings below the loan repayment threshold of £21,000. The share of respondents who expect their earnings after graduation to be below the



repayment threshold varies with gender (female: 32.6%, male: 21.2%) and whether the student would be the first in their family to enter HE (37.2%) or not (24.9%).

Only 16.3% of respondents expect a salary of more than £30,000 after graduation, with clear variation according to gender (female: 12.8%, male: 22.2%). There is also a measurable difference in the expectation of high earnings between applicants who would be the first of their family in HE (11.5%) and those who would not (18.2%). This may demonstrate a lack of knowledge about the graduate labour market for respondents who come from families with no HE experience.

Expected debts

Participants who applied to HE were asked about the level of debt they expect to accumulate during their studies. The questionnaire used clustered answer ranges to generate this data, including the option of 'don't know/ have not thought about this'; this was selected by 20.7% of respondents. Where respondents had considered issues of costs and resulting debt, data from the focus group interviews suggests that differences in fees were generally considered to be of little significance ('They all charge more or less £9000, don't they?') and that there was only limited consideration and awareness of living costs. Similarly the financial support they might be offered by universities was not clear to many interviewees.

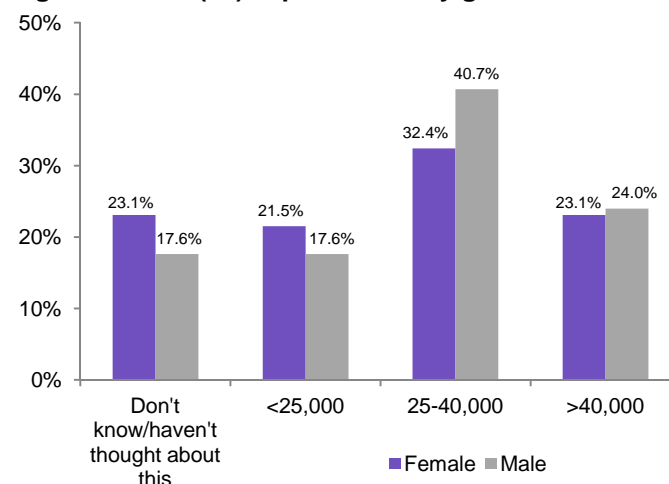
This option of 'don't know/ have not thought about this' was chosen by fewer respondents who would be the first in their family to enter HE (16.2%) than respondents who were not (23.0%). Thus respondents who cannot draw on family experience of HE look into the issue of debt more carefully. Possibly as a result of this and less financial family support, first in family respondents are more likely (27.7%) to expect high levels of debt (over £40,000) than the other group (21.3%).

When questioned about the high level of uncertainty/unawareness regarding study-related debt, focus group participants argued that the scale of expected debt on graduation was so large that they could not really grasp the idea of it. One participant argued 'it's more money than you could possibly imagine, so I'd rather just do what I would do anyway and then worry about it later.' Those applying to HE were clear that they were making a significant investment and therefore it was important for them to undertake a course that was 'worth it'.

The data from the questionnaire indicate important gender differences in expectations about the financial aspects of studying, with male respondents expecting higher debts overall (see Figure 1). Over 40% of respondents indicated that they are 'concerned' or 'very concerned' about this debt. Unsurprisingly, students who expect higher levels of debt are more concerned. The results also show a clear gender difference: while 48.6% of female respondents indicated concern about

debt, the corresponding figure for male respondents was 27.5%.

Figure 1: Debt (£s) expectations by gender



The data indicate that students who have applied to start their HE studies in October 2012 generally expect to work to earn money while they study, either part-time during term or in vacations, but are not keen to live at home while at university; they still regard moving away from home as part of the HE experience.

Expected repayment period

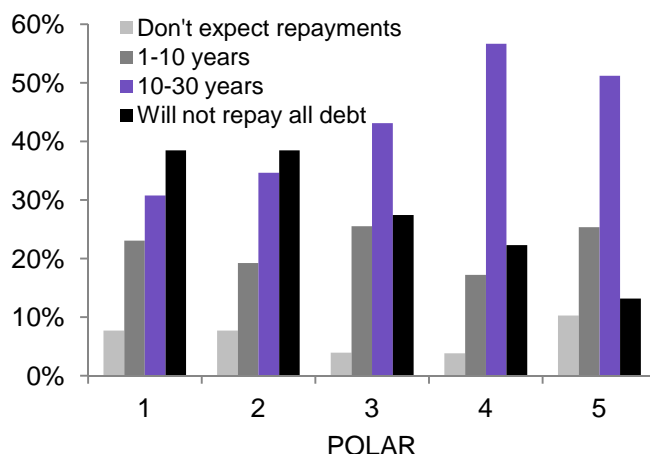
When applicants to HE were asked to estimate the time they expect they will need for paying back their accumulated debt, 20% of respondents selected the option 'I don't expect I will pay back all the debt'. The corresponding figure for respondents who gave a post-1992 institution as their first choice is significantly higher (30.3%), reflecting the lower earnings expectations of these respondents. The proportion of applicants to Russell Group universities who do not expect to pay back their debts in full is only 15.2%. Overall, 38% of respondents expect a long repayment period (16-30 years), a figure that rises to 46.8% amongst students who are concerned about HE debt. First generation HE applicants are also more likely to expect long repayment periods.

The information respondents gave on their home postcode was analysed according to local rates of progression to HE. This was done using the POLAR 2 (participation of local areas) system, which categorises postcode areas into five quintiles, with quintile 1 comprising the 20% of postcode areas with the lowest HE progression rates amongst young people and quintile 5 the highest.¹ Using POLAR to analyse debt repayment expectations revealed some variations – those from higher POLAR quintiles are less likely to

¹ For full information on POLAR see <http://www.hefce.ac.uk/whatwedo/wp/ourresearch/polar/>

expect not to pay back all their debt and (consequently) more likely to expect to repay in full between 10 and 30 years, as seen in Figure 2.

Figure 2: Loan repayment expectations by POLAR quintiles



Graduate premium

The questionnaire asked respondents for their assessment of the difference between the earnings of graduates and non-graduates with the same qualification at the point of school-leaving. While nearly 78% of respondents indicated that they believed graduates earned more, only 22% expected that they earned significantly more (over £5000 per year).

There was some variation depending on whether or not respondents would be the first in their immediate family to go to HE: while 80.4% of students who have family members with HE experience consider there to be a gap in earnings, the corresponding figure for first in family respondents is only 72.4%. This variation is important since the attitude towards the notion of a graduate premium has a strong influence on the propensity to apply to HE. Only 19.8% of respondents who believe there is a graduate premium did not apply to HE, the corresponding figure for respondents who do not believe there is a graduate premium is 46.9%.

The focus group discussions make it clear that many participants regard HE and the costs involved as an investment which will pay financial dividends in the future. This quote is representative of this view: 'I see uni as an investment. You're putting the fees in now, but that means you can get a better job and have a nice house and you can make that kind of life for yourself.' However, most participants highlighted non-financial reasons for obtaining a degree. The same participant's reasoning continued 'I think uni's important also because you can learn to be independent, and you're away from family and everything.'

There was clear evidence from the focus groups, but also from the questionnaire, that interest in a particular

subject is an important motivator to continue into HE. While students recognised an ongoing graduatisation of the labour market (i.e. that jobs their parents do without a degree, you would now need a degree) there is a realisation that a degree does not necessarily result in a higher paid job. The following quote expresses doubt regarding the concept of a graduate premium in the current economic climate: 'In the current scenario, it's quite possible that a graduate doesn't earn more than someone who hasn't got a degree and goes straight into work and carries on climbing that ladder.'

Rationales Underpinning HE Decisions

Reasons for applying to HE

Respondents who indicated that they applied for a place in HE were asked how important items from a list of possibilities were in their decision-making. This question used a five-point Likert scale format, with the options of 'very important', 'important', 'slightly important', 'hardly at all', 'not at all'. The list of 13 possibilities suggested ranged from items focused on the subject chosen, to the future benefits of studying, to items on the financial implications of their decision.

An exploratory common factor analysis was conducted to find out if there were underlying themes driving the responses. Regarding reasons for applying to HE, the most important factor related to financial concerns; these score higher for two groups – those who have no family members who went on to HE, and (unsurprisingly) those who are concerned about future debt. Concerns about future prospects (and the benefits of having a degree for future earnings and employment opportunities) are stronger for those applying to pre-1992 universities (especially Russell Group universities), and for those who believe that graduates earn more than non-graduates. Finally, the motivation to study further for its own sake is more strongly felt by those applying to pre-1992 universities.

In the focus groups some participants acknowledged strongly that their parents had been saving towards their university costs for some years, and were conscious that the new fees meant this would not make as much difference as their parents had hoped. This created a feeling of responsibility to acknowledge parents' effort, resulting in 'higher stakes' attached to the decision about entry into HE. Participants also stressed the importance of finding the right university and the right course. However, there was also a strong sense that a degree is essential in order to have opportunities. According to one participant, the difficulties of finding a job without a degree are 'drummed in to you throughout secondary school'.

There is also some indication that sixth formers do not have much information on alternatives to studying in HE; very few participants had considered apprenticeships. However, participants seemed keen to

establish contact with employers that could be maintained throughout a degree, for instance through part-time work and placements as part of their studies.

Rationales for institutional choices

Participants were asked about their choice of institution. 73.6% of respondents applied to at least one pre-1992 university, of whom 75.3% applied to at least one Russell Group university. A question followed about the relative importance of a series of factors that influenced their decision. Factor analysis shows that financial considerations, such as fees and bursaries at a particular institution, may play a part in institutional choices. Concerns about cost are higher for men, for those applying to post-1992 universities (compared to Russell Group universities) and for those concerned about the debt burden. Those who expect to earn above the repayment threshold (£21,000) in their first job after graduation are also more concerned with costs. This suggests cost is less of a concern if individuals do not expect to start repayments immediately. We may tentatively conclude that respondents view repayments as an income-contingent obligation (like a tax) rather than as a debt, and therefore worry less about its size, a perspective that was also expressed in focus group discussions. If applicants viewed student loans in the same way as a regular debt (like a mortgage or credit card bill) then we would expect individuals who anticipate longer repayment periods to be more concerned about the total cost.

Reasons for not applying to HE

Participants who did not apply to HE were asked about the reasons for not applying. Out of a list of 13 possible reasons, immediate financial considerations ('I want to earn money', 'I don't want to get into debt') were the two most frequently mentioned. Items that indicate a preference for entering the labour market over studying ('I want to find a job straight away', 'I want to do an apprenticeship') were also important.

This is broadly confirmed by factor analysis which also indicates that financial motives related to future earning potential are the most important reasons for not applying to HE, particularly the prospect of lost earnings. Second in importance is the ability to find employment and discern a career path without an HE qualification. Unlike our other analyses, there are far less distinctions between groups. A concern about lost earnings is stronger for those who are not planning to apply to HE, for those who are the first in their family to go onto university and for those that do not believe that graduates will earn more. The one significant difference between male and female students was the influence of negative perceptions about university; male students were more influenced by concerns about debt, not fitting in and going against family norms.

Conclusion

Financial considerations clearly influence the decisions potential applicants make with regard to HE. The data presented here show that views regarding the graduate premium have a profound impact on the decision of sixth formers about whether or not to apply to HE. For those that are applying, financial issues relating to labour market success and careers remain a big factor, while financial issues relating to course cost play some part in the choice of institution. Indirect experience of HE, through family, friends or local community, plays a role in the way perceptions about these financial issues are formed. First-generation applicants tend to be more pessimistic about the financial benefits and more concerned about student debt.

While differences in expected cost of studying at different institutions was not the only factor in choices about where to apply, the high level of debt prospective students expect plays an important role in their decisions. Questions of employability upon graduation are regarded as highly important. The levels of selectivity that prospective students demonstrated suggest that the Clearing process may operate differently as fees increase, with a reduced number of applicants accepting places on courses or at institutions that they have not previously considered. On the other hand, once students have embarked on a degree, it can be expected that they will view it as a substantial commitment and so be less likely to drop out.

References

- UCAS (2012) *How Have Applications for Full-Time Undergraduate Education in the UK Changed in 2012?* Cheltenham: UCAS.
- Willetts D (2011) 'Speech at Guardian HE Summit', 16 March, London.

Further Information

This research was funded by the UK Economic and Social Research Council. For further information please contact hubert.ertl@education.ox.ac.uk.

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