Student loan architect admits system was designed in ‘mad rush’

Plan 2 loans are facing mounting criticism over punitive interest rates graduates are unable to repay

Mary Downer, The Times Saturday 14th February ‘26

Plan 2 student loans were designed in a “mad rush” at the height of austerity, according to one of the architects of the system.

Nick Hillman was a special adviser to the former universities minister Lord Willetts when tuition fees tripled and Plan 2 loans, taken out by graduates who started university between 2012 and 2023, were designed.

The loans have come under fire after The Sunday Times exposed the punitive interest rates keeping a generation of graduates trapped with debt they cannot repay.

The government is under pressure to review the interest rates attached to the loans.

Hillman, now director of the Higher Education Policy Institute think tank, told The Times that the coalition government had been under pressure from voters to save money and they had already promised not to touch pensions or defence spending. The policy was “put together very, very rapidly in a bit of a mad rush in 2010”, he said.

“Austerity was real and the electorate had sent a very clear signal,’ he said. “We’d had a general election where every single major political party had promised big spending cuts, and they’d also all promised to exempt some areas of public spending. They’d said ‘we’re not going to cut pensions and we’re not going to cut defence and we’re not going to cut science’, so the bits of government that were not protected, and that included higher education … had to take swingeing cuts.”

The coalition government announced in 2011 that it would increase tuition fees from £3,290 to a maximum of £9,000 and cut government teaching grants. With this rise, they brought in Plan 2 loans. The loans take 9% of a graduate’s income over the repayment threshold, which is presently £28,470. The interest rate applied is the retail price index, presently 4.2%, plus up to 3 percentage points. It means a graduate with £40,000 of debt would pay £2,880 of interest in a given year. If they did not pay off any of the loan, the debt would double every ten years.

The system has come under criticism both for the high interest rates and consecutive tweaks to the system.

Last November the chancellor, Rachel Reeves, announced that the threshold at which graduates start repaying their loan would be frozen for three financial years from this

April, when it rises to £29,385. This creates fiscal drag, which will mean graduates repay more, sooner, and affects those on lower salaries the most.

Hillman said: “We thought we designed a fairly well-calibrated system back in 2012, including with the additional three percentage points, but the system was different to what we’ve ended up with … We said the repayment threshold would go up in line with earnings; that’s gone. All sorts of things that were carefully calibrated back in 2012 have been stripped out by subsequent governments.”

Many graduates now say they were mis-sold these loans because the terms have changed since they took them out.

Although the loans are wiped after 30 years, or 40 years for newer graduates, the loss of almost 10% of their income is affecting how much younger workers can save for a house deposit or borrow for a mortgage.

Graduates earning above £50,270 face a marginal tax rate of 51%: 40% higher rate income tax, 2% national insurance and 9% student loan repayments. This is higher than the rate faced by a non-graduate earning £150,000: 45% additional rate income tax, plus 2% national insurance.

When questioned about whether these kinds of implications were thought out – such as the psychological burden graduates are now feeling – Hillman said: “Not in enormous detail, no … behavioural considerations were mainly about if it would discourage people from higher education.”

He added: “[Fifty-one per cent] is not an outstandingly high marginal rate.”

