
Restructuring Student Loans: Lessons from Abroad

Study Financing and Student Loans in Germany

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Outline

- Studying in Germany – some figures
- Political and societal common sense
- Tax amount after income and entrance salaries
- Study financing
  - Legal framework for study financing
  - Study costs and sources of financing
  - Financial support system
- Student indebtedness
- Conclusions
What about Studying in Germany? – Some Figures

• 2.75 million students in 2015
  – 1.7 million enrolled in Universities (U)
  – 0.9 million enrolled in Universities for Applied Sciences (UAS)
  – 150,000 enrolled in Open Distance Universities
  – 320,000 international students

• 93% at public, 7% at private universities

• Study duration
  – bachelor degree after 3 to 4 years (180 to 240 credits)
  – master degree after 1 to 2 years (60 to 120 credits)
  – precondition for the master degree: 300 credits

• Current transition from bachelor to master
  – > 80% university students
  – > 50% UAS students
What about the Political and Societal Common Sense in Germany?

- Germany as a welfare state:
  - social and educational participation one constitution issue
  - social or family origin no obstacle

- (Higher) education: a public good and public responsibility (as well in several Bologna declarations)

- No tuition fees at public universities (concerns 93% of the students)
  - only a short period between 2007 and 2014 in six federal states

- All 16 federal states fully subsidize public universities and partly private universities
Tax amount and entrance salary

- The upper 40% realize an annual income over 35,000 Euro
- They contribute to income tax revenues with a share of 90%
- On average, graduate’s start with an annual salary of 39,000 Euro
What about the legal framework for study financing in Germany?

• Parents pay for their children’s studies
  – obliged to a current livelihood of 735 Euro/month

• For low(er) income HHs: **German Federal Training Assistance Act** substitutes parental obligation
  – established in 1971 as BundesAusbildungsförderungsgesetz – **BAföG**
  – a one vote decision by all political parties in national parliament

• Goals:
  – equal opportunities, independent from social or familiar origin
  – to mobilize educational reserves, especially to win first generation students
What about study costs and financing sources?

Costs of 5 years of study
- between 44,000 and over 50,000 Euro livelihood

Who pays for students’ livelihood and how much?
- Parents are the main payers 6.30 bn Euro
- State grants/loans (BAföG) 2.15 bn Euro
- Salary from students’ employment 3.10 bn Euro
- Remaining (savings, partners, loans) 1.62 bn Euro
BAföG – Conditions and Numbers 2014

- 646,000 students (24%) achieved, at annual average 425,000
- Financial support depends on parental income
  - Maximum rate 735 Euro/month - average rate 448 Euro
  - 735 Euro/month under 20,580 annual net income
  - no support over 38,000 Euro annual net income
- 50% grant, 50% loan
- Expenditures in 2015:
  - 1.2 bn grants
  - 1.1 bn loans (given by Bank for Reconstruction - KFW)
BAföG Repayment

- Total debt limited to a repayable loan of 10,000 Euro
- Interest rate: zero!
- Repayment start: 5 years after the end of the support
- By a net income over 1,145 Euro (plus 570 for life partners, spouses and 520 for every child)
- Rate per month: 105 Euro
- Duration max: 20 years
- Average duration: 8 years
BAföG - History

- 1971: started as a grant
- 1982: changed to a subsidy-only of grants
  - **Result:** many school leavers prefer to enter vocational training programs instead of higher education
- 1990: after German reunification, changed to 50% grants, 50% loans without interest
- 2001: limited the repayable loan at 10.000 Euro
  - **Result:** share of students from poorer families increases
Additional Loan Offers – conditions and numbers

KFW Study loan (about 100,000 students)

• Product of the bank for reconstruction (KFW), distribution of loans:
  – 601 to 650 Euro: 42% of loan takers
  – 501 to 600 Euro: 12%
  – 401 to 500 Euro: 16%
  – 301 to 400 Euro: 14%
  – 201 to 300 Euro: 12%
  – 100 to 200 Euro: 4%

• Current interest rate: 4.16

• Loans taken only by 6% of students
Student Indebtedness

- **82%** students free from debt
- **Only 18%** of all students have debts (incl. BAföG-recipients)
- Indebtedness among the 18% with debts
  - up to 4,000 Euro: 50%
  - over 10,000 Euro: 25%
  - 10,000 to 20,000 Euro: 12%
  - 20,000 and 30,000 Euro: 5%
  - over 30,000 Euro: 8%
- average indebtedness 10,000 Euro
Conclusions

• No tuition fees, calculable and limited indebtedness
• Increasing participation of first generation students and those with lower income
• Students benefit from public financial support, they later pay higher taxes
• Students contribute, via their education and qualifications, to economic growth