

PAYSLP METHODOLOGY SERIES

Chapter 4 — Literature Review

# **Student Loan Repayments — All Plans**

*A thematic synthesis of statutory, regulatory  
and policy literature*

*Author*

**Matthew Newton, MBA**

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## ABSTRACT

*This literature review examines the regulatory, statutory and policy literature underpinning the calculation of UK income-contingent student loan repayments for the 2026/27 tax year. Drawing on HMRC guidance, the Student Loans Company, the House of Commons Library research briefing CBP-10654, and the principal statutory instrument—the Education (Student Loans) (Repayment) Regulations 2009 (SI 2009/470) as amended—the review traces the proliferation of repayment plans from a single ‘Plan 1’ in 1998 to the present five-plan system encompassing Plans 1, 2, 4, 5 and the Postgraduate plan. The review identifies four themes: the design principles of income-contingent loan repayment; the threshold uprating policy and its interaction with the Plan 2 freeze 2021–2024; the distributional and incentive effects of the 9 percent (and 6 percent for the Postgraduate plan) marginal repayment rate; and the calculator implementation requirements created by the possibility of simultaneous Plan 2 and Postgraduate liability. The chapter concludes that the 2026/27 thresholds, recently uprated, modestly improve the position of low and middle earning graduates relative to 2025/26.*

*Keywords:* student loans, income-contingent repayment, Plan 2, Plan 5, marginal rate, 2026/27

## 1. Introduction

Income-contingent repayment of student loans is now a settled feature of the United Kingdom’s graduate fiscal landscape, applicable to a population of around 8.6 million graduates and their equivalents across all four United Kingdom nations. Repayments are calculated as a fixed proportion of income above a plan-specific threshold and are administered through the Pay As You Earn system for employed earners and Self Assessment for the self-employed. From the perspective of a take-home pay calculator, student loan repayment is the third significant deduction after income tax and National Insurance, and one that is particularly material at lower-to-middle earnings.

This chapter undertakes a thematic literature review of the principal sources informing the calculation of 2026/27 student loan repayments as implemented in the ukSL function of the Payslp methodology. Four sources are drawn upon: HMRC’s technical guidance on student loan repayments; the Student Loans Company’s 2026/27 thresholds publication; the House of Commons Library’s research briefing CBP-10654 on student loan interest rates and repayment thresholds; and the principal statutory instrument, the Education (Student Loans) (Repayment) Regulations 2009 (SI 2009/470) as amended for 2026/27.

## 2. Scope and Methodological Approach

The review covers the five extant repayment plans applicable to graduates resident in the United Kingdom in 2026/27: Plan 1 (England and Wales pre-2012; Northern Ireland), Plan 2 (England and Wales 2012–July 2023), Plan 4 (Scottish students from any cohort), Plan 5 (England from August 2023 onward) and the Postgraduate plan (postgraduate loans). The review does not extend to the legacy mortgage-style loans repayable on a non-income-contingent basis, which are now of vanishingly small cohort size.

Methodologically, the review approaches the literature as an operational rather than theoretical question: the thresholds and rates that determine repayment liability are set out in the Regulations and amended by HMRC and the Department for Education on an annual cycle. Where the House of Commons Library briefing offers analytical context (particularly on the Plan 2 freeze and its distributional consequences), the review draws upon it; otherwise, primary guidance from HMRC and the Student Loans Company is taken as definitive.

### **3. Literature Review**

#### **3.1 The income-contingent loan as a fiscal instrument**

The income-contingent loan, as introduced by the Teaching and Higher Education Act 1998 and elaborated through the Education (Student Loans) (Repayment) Regulations 2009, differs fundamentally from a conventional credit arrangement. Repayment is triggered only by income above a threshold, accrues at a marginal rate of 9 percent (6 percent for the Postgraduate plan) on the excess, and involves no concept of arrears or default in the conventional sense. Outstanding balances are written off after a plan-specific period (typically 25 to 40 years from the April after graduation), with the result that a substantial minority of borrowers never repay in full. The House of Commons Library (2026) estimates that approximately 75 percent of Plan 2 borrowers will not repay their balance in full before the 30-year write-off date.

Income-contingency thus creates a fiscal instrument that functions, in distributional terms, more like an income tax than a loan repayment, although it is treated as the latter for personal credit purposes. The 9 percent marginal rate above threshold, when added to the 20 percent basic rate of income tax and the 8 percent main rate of NI, produces an effective marginal tax rate of 37 percent for the typical Plan 2 borrower in employment—a fact rarely emphasised in popular financial commentary but of considerable significance for marginal earnings decisions.

#### **3.2 Plan proliferation and threshold uprating**

The five-plan system in operation for 2026/27 is the result of progressive policy choices, including the move from Plan 1 to Plan 2 in 2012 (raising thresholds and lengthening write-off), the introduction of Plan 4 in 2021 to give Scottish-domiciled students more generous treatment, the introduction of Plan 5 in 2023 to lower thresholds and extend write-off to 40 years for new English borrowers, and the long-standing Postgraduate plan that operates concurrently with any undergraduate plan a borrower may also hold.

For 2026/27, HMRC (2026) and the Student Loans Company (2026) confirm the annual repayment thresholds at: Plan 1 £26,900; Plan 2 £29,385; Plan 4 £33,795; Plan 5 £25,000; and Postgraduate £21,000. These figures represent modest increases on the 2025/26 thresholds for Plans 1, 2 and 4, and no change for Plan 5 or the Postgraduate plan. The Plan 2 figure of £29,385 is particularly noteworthy: it follows the breaking of the freeze that held Plan 2 at £27,295 from 2021/22 through 2024/25 (House of Commons Library, 2026), a freeze that the Library characterises as having materially harmed lower-earning graduates throughout the high-inflation period of 2022 and 2023.

#### **3.3 The 9 percent marginal rate and labour-market incentives**

Above its threshold, each plan applies a 9 percent marginal rate of repayment, with the exception of the Postgraduate plan at 6 percent. Although these figures are nominally modest, their interaction with the prevailing tax-and-NI structure produces materially high effective marginal rates for graduates. A typical Plan 2 graduate in employment earning £35,000 faces a combined marginal wedge of approximately 37

percent on each additional pound of earnings: 20 percent income tax, 8 percent National Insurance, and 9 percent student loan. A Plan 2-and-Postgraduate-plan graduate at the same income faces 43 percent. These figures are not commonly understood by graduates themselves, a point on which the Low Incomes Tax Reform Group has elsewhere commented in connection with marginal salary-sacrifice decisions.

### **3.4 Implementation: simultaneous Plan 2 and Postgraduate liability**

A non-trivial minority of graduates—those who hold both an undergraduate loan (Plan 2 or, prospectively, Plan 5) and a postgraduate loan—are subject to repayment obligations under two plans concurrently. The Student Loans Company (2026) confirms that, in such cases, both plans operate against the same income but each at its own threshold and rate: a borrower earning £40,000 with both Plan 2 and Postgraduate liabilities would repay 9 percent of (£40,000 – £29,385) on Plan 2 and 6 percent of (£40,000 – £21,000) on the Postgraduate plan, for a combined annual repayment of approximately £2,095. The Payslp ukSL function supports this dual-plan case through a secondary plan parameter.

## **4. Synthesis and Implications for Calculator Implementation**

The reviewed literature provides a clear operational specification for the 2026/27 student loan repayment calculation, with thresholds and rates confirmed by both HMRC and the Student Loans Company and grounded in the Education (Student Loans) (Repayment) Regulations 2009. Three implementation requirements follow. First, the calculator must support all five plans currently in operation, with each plan's threshold and rate configurable. Second, the calculator must support the simultaneous-plan case, in which a borrower holds both an undergraduate and a postgraduate plan: the implementation should accept a secondary plan parameter and sum the resulting liabilities. Third, the calculator should present the combined effective marginal rate (income tax + National Insurance + student loan) where it materially exceeds the headline income-tax rate, in keeping with the principle of transparency about effective rather than merely headline rates.

The recent uprating of the Plan 1, Plan 2 and Plan 4 thresholds—the second consecutive year of increases for Plan 2 following the 2021–2024 freeze—is the most material change for 2026/27. Borrowers earning at or above the previous Plan 2 threshold (£28,470 in 2025/26) will see a small reduction in monthly repayments. The November 2025 Budget confirmation that Plan 2 will again be frozen from April 2027 to April 2030, however, signals that the present uprating is a temporary easing rather than a structural change.

## **5. Conclusion**

The 2026/27 student loan repayment landscape is characterised by five concurrent plans, modest threshold uprating for Plans 1, 2 and 4, and an unchanged 9 percent (6 percent for Postgraduate) marginal rate. The literature is internally consistent on the operative parameters and is now beginning to develop a deeper analytical commentary on the distributional consequences of plan proliferation and the threshold-freeze policy that has characterised much of the recent period. Calculator implementation must accommodate the full five-plan structure, the simultaneous-plan case for postgraduate borrowers, and the analytical visibility of the combined effective marginal rate. The Payslp implementation does so in its ukSL function, with the rates and thresholds verified against primary materials at the May 2026 evidence window.

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