

# Coping with College Loans

*Paying them down and managing their financial impact.*

Provided by Ron Richards

**Total student loan debt in America is now around \$1.6 trillion.** Since 2008, it has more than doubled. Federal Reserve data states that 44.7 million Americans are dealing with lingering education loans. The average indebted college graduate leaves campus owing nearly \$30,000, and the mean monthly student loan payment is about \$400.<sup>1</sup>

**Economically, the country is feeling the impact.** The National Association of Realtors says that 25% of recent homebuyers have outstanding student loans, including 41% of first-time buyers. A 2018 study by the Center for Retirement Research at Boston College concludes that under-30 employees carrying education debt typically have just half as much saved in their workplace retirement plan accounts as other workers their age.<sup>2,3</sup>

**If you carry sizable education debt, how can you plan to pay it off?** If you are young (or not so young), budgeting is key. Even if you get a second job, a promotion, or an inheritance, you won't be able to erase any debt if your expenses consistently exceed your income. Smartphone apps and other online budget tools can help you live within your budget day to day or even at the point of purchase for goods and services.

After that first step, you can use a few different strategies to whittle away at college loans.

\*The local economy permitting, a couple can live on one salary and use the wages of the other earner to pay off the loan balance(s).

\*You could use your tax refund to attack the debt.

\*You can hold off on a major purchase or two. (Yes, this is a sad effect of college debt, but it could also help you reduce it by freeing up more cash to apply to the loan.)

\*You can sell something of significant value – a car or truck, a motorbike, jewelry, collectibles – and use the cash for paying down the debt.

Now, in the big picture of your budget, you could try the “snowball method” where you focus on paying off your smallest debt first, then the next smallest, etc., on to the largest. Or, you could try the “debt ladder” tactic, where you attack the debt(s) with the highest interest rate(s) to start. That will permit you to gradually devote more and more money toward the goal of wiping out that existing student loan balance.

Even just paying more than the minimum each month on your loan will help. Making payments every two weeks rather than every month can also have a positive impact.

If a lender presents you with a choice of repayment plans, weigh the one you currently use against the others; the others might be better. Signing up for automatic payments can help,

too. You avoid the risk of penalty for late payment, and student loan issuers commonly reward the move by lowering the interest rate on a loan by a quarter point.<sup>4</sup>

**What if you have multiple outstanding college loans?** If one of them has a variable interest rate, try addressing that one first. Why? The interest rate on it may rise with time.

Also, how about combining multiple federal student loan balances into one? That is another option. While this requires a consolidation fee, it also leaves you with one payment, perhaps at a lower interest rate than some of the old loans had. If you have multiple private-sector loans, refinancing is an option. Refinancing could lower the interest rate and trim the monthly payment. The downside is that you may end up with variable interest rates.<sup>5</sup>

**Maybe your boss could help you pay down the loan.** Some companies are doing just that for their workers, simply to be competitive today. According to the Society for Human Resource Management, 8% of employers offer this perk. A 2018 Employee Benefit Research Institute poll of 250 firms revealed that 13% planned to offer such assistance in the future.<sup>6</sup>

**To reduce your student debt, live within your means and use your financial creativity.** It may disappear faster than you think.

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#### Citations.

1 - fool.com/the-ascent/research/student-loan-debt-statistics/ [9/23/19]

2 - nar.realtor/student-loan-debt [11/12/19]

3 - washingtonpost.com/business/2019/06/25/heres-what-trillion-student-loan-debt-is-doing-us-economy/ [6/25/19]

4 - nerdwallet.com/article/loans/student-loans/how-to-lower-student-loan-interest-rate [8/7/19]

5 - nerdwallet.com/blog/loans/student-loans/consolidate-student-loans-2/ [10/8/19]

6 - tinyurl.com/uzedpg2 [10/10/19]